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CITY OF PETAL, MISSISSIPPI

AUDIT REPORT

SEPTEMBER 30, 2004

CITY OF PETAL
AUDITED FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

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AUDITOR'S REPORT

Honorable Mayor, Members of the
Board of Alderman and City Clerk
City of Petal, Mississippi

We have audited the financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Petal as of and for the year ended September 30, 2004, which collectively comprise the City of Petal's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Petal's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Petal, as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Auditor's Report
Page Two

As described in Note 2, the City implemented a new financial reporting model as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* as of September 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2005, on our consideration of the City of Petal's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison schedules on pages 5 through 13 and 53 through 55 are not a required part of the basic financial statements but are supplementary information required by the accounting principles accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Petal's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Wright & King, CPA's
March 1, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

**CITY OF PETAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

The discussion and analysis of the City of Petal's financial performance provides an overall narrative review of the city's financial activities for the year ended September 30, 2004. The intent of this discussion and analysis is to look at the city's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the city's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this city's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the city's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

This discussion and analysis is a new element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34- *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments* issued June 1999. Certain comparative information between the current year and the prior year is required to be presented. However, since this is the first year of implementation of the new reporting model contained in GASB Statement No. 34, the Statement permits the omission of prior year data in the year of implementation. The City has elected not to present comparative data. Comparative analysis will be provided in the future years when prior year information is available.

FINANCIAL HIGHLIGHTS

- Total net assets increased \$1,385,843, which represents 26.71% increase from fiscal year 2003. The increase was a result of capital grants of \$1,711,366.
- General revenues account for \$3,895,309 of revenue, or 51.46% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3,659,181 or 48.54% of total revenues.
- The City had \$6,168,647 in expenses; only \$3,659,181 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$3,895,309 were adequate to provide for these programs.
- Among major funds, the General Fund had \$4,402,577 in revenues, \$4,279,402 in expenditures, and net other financing sources of \$178,775. The General Fund's fund balance increased \$301,950 over the prior year.
- Capital assets, net of accumulated depreciation, increased by \$4,235,743, including adjustments due to implementation of GASB 34.
- Long-term debt increased by \$2,317,092.

**CITY OF PETAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. These statements are prepared using the accrual basis of accounting and include all assets and liabilities.

The statement of net assets presents information on all the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years.

The government-wide financial statements outline functions of the City that are principally supported by property taxes and intergovernmental revenues (governmental activities) and water and sewer charges (proprietary activities). The governmental activities of the City include general government, public safety, public works, and interest expense on bonds and leases.

The government-wide financial statements can be found on pages 14-16 of the report.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information

**CITY OF PETAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

may be useful in evaluating the City current financing requirements. Governmental Funds are reported using modified accrual accounting. This method of accounting measures cash and other assets that can be easily converted to cash. The Governmental Funds Statements provide a detailed short-term view of the City's operations.

Governmental Funds Statements provide a detailed short-term view of the City's operations.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 20 and 22, respectively.

The basic governmental fund financial statements can be found on pages 17-22 of this report.

Propriety funds

The City of Petal maintains one type of propriety fund, the enterprise fund. The Enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses the enterprise fund to account for its Water and Sewer Department and its Solid Waste Operation.

Propriety funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 23-25 of this report.

Notes to the financial statements

The notes provided additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-53 of this report.

Other information

In addition to the basic financial statements accompanying notes, this report also presents certain required supplementary information concerning the City's budget process.

**CITY OF PETAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

The City adopts an annual operating budget for all governmental funds and proprietary funds. Budgetary comparison statements have been provided for the General Fund and the Enterprise Fund. This required supplementary information can be found on pages 54-56 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets

Net assets may serve over time as a useful indicator of government's financial position. In the case of the City, assets exceeded liabilities by \$7,879,282 as of September 30, 2004.

By far the largest portion of the City's net assets (54%) reflects its investment in capital assets (e.g. land, infrastructure, buildings, mobile equipment, furniture and equipment, leased property under capital leases and construction in progress, less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens; consequently these assets are not available for future spending.

The City's financial position is a product of several financial transactions including the net result of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets and the depreciation of capital assets.

The following table presents a summary of the City's net assets for the fiscal year ended September 30, 2004.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Current assets	\$ 4,565,419	\$ 516,078	\$ 5,081,497
Capital assets, net	<u>7,244,897</u>	<u>2,928,128</u>	<u>10,173,025</u>
Total assets	<u>\$ 11,810,316</u>	<u>\$ 3,444,206</u>	<u>\$ 15,254,522</u>
Current liabilities	\$ 701,256	\$ 71,583	\$ 772,839
Long-term debt outstanding	<u>5,547,196</u>	<u>1,055,205</u>	<u>6,602,401</u>
Total liabilities	<u>6,248,452</u>	<u>1,126,788</u>	<u>7,375,240</u>
Net assets:			
Invested in capital assets, net of related debt	2,530,678	1,710,661	4,241,339
Restricted	-	137,292	137,292
Unrestricted	<u>3,031,186</u>	<u>469,465</u>	<u>3,500,651</u>
Total net assets	<u>\$ 5,561,864</u>	<u>\$ 2,317,418</u>	<u>\$ 7,879,282</u>

**CITY OF PETAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

The following are significant current year transactions that have had an impact on the Statement of Net Assets.

- The acquisition of \$2.4 million in infrastructure from construction in progress rebuilding South Main Street and the completion of erosion control project. These were partially funded by grants from MS Department of Transportation and US Department of Agriculture.

Changes in net assets

The City total revenues for the fiscal year ended September 30, 2004 were \$7,554,490. The total cost of all programs and services was \$6,168,647. The following table presents a summary of the changes in net assets for the fiscal year ended September 30, 2004.

	Governmental Activities	Business-type Activities	Total
Revenues:			
Program revenues:			
Charges for services	\$ 382,919	\$ 1,397,795	\$ 1,780,714
Operating Grants	132,281	-	132,281
Capital Grants	1,711,366	34,820	1,746,186
General revenues	<u>3,891,593</u>	<u>3,716</u>	<u>3,895,309</u>
Total revenues	<u>6,118,159</u>	<u>1,436,331</u>	<u>7,554,490</u>
Expenses:			
General Government	633,089		633,089
Public Safety	2,388,520	-	2,388,520
Public Works	1,243,788	-	1,243,788
Culture & Recreation	346,193	-	346,193
Water & Sewer	-	988,616	988,616
Solid Waste	-	422,485	422,485
Transfers		34,847	34,847
Interest on long-term liabilities	<u>111,109</u>	<u>-</u>	<u>111,109</u>
Total expenses	<u>4,722,699</u>	<u>1,445,948</u>	<u>6,168,647</u>
Inc. (Dec.) in net assets	<u><u>\$ 1,395,460</u></u>	<u><u>\$ (9,617)</u></u>	<u><u>\$ 1,385,843</u></u>

**CITY OF PETAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

Governmental activities

The following table presents the cost of major City functional activities. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions.

	<u>Total Expenses</u>	<u>Net (Expense) Revenue</u>
Expenses:		
General Government	\$633,089	(\$633,089)
Public Safety	2,388,520	(1,937,701)
Public Works	1,243,788	470,238
Culture & Recreation	346,193	(284,472)
Interest on long-term liabilities	<u>111,109</u>	<u>(111,109)</u>
Total expenses	<u>\$4,722,699</u>	<u>(\$2,496,133)</u>

- Net cost of governmental activities (\$2,496,133), was funded by general revenue, which is made up of primarily property taxes (\$1,671,591) and state sales tax revenue (\$1,400,222).
- Investment earnings accounted for \$202,612 of funding.

Business-type activities

Business type activities decreased the City of Petal's net assets by \$9,617. Water & Sewer decreased by (\$3938) with Solid Waste reporting a decrease of (\$5,679).

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the City's governmental funds is to provide information on current inflows, outflows and balances of spend able resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

**CITY OF PETAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

The financial performance of the City as a whole is reflected in its governmental funds. As the City completed the year, its governmental funds reported a combined fund balance of \$3,864,163, an increase of \$2,128,674. In the general fund \$965,833 or 25% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the City's discretion. The remaining fund balance of \$2,898,330 or 75% is reserved or designated to indicate that it is not available for spending because it has already been committed.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City revised the annual operating budget.

- Schedules showing the original and final budget amounts compared to the City's actual financial activity for the General Fund is provided in this report as required supplementary information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of September 30, 2004, the City's total capital assets were \$14,150,585, including city buildings, infrastructure, vehicles and furniture and equipment. Total accumulated depreciation as of September 30, 2004 was \$13,194,256 and total depreciation expense for the year was \$420,890, resulting in total net assets of \$9,780,943.

Additional information of the City's capital assets can be found in Note 6 on pages 42-44 of this report.

Debt Administration

At September 30, 2004, the City had \$ 5,539,604 in general obligation bonds and other long-term debt outstanding, of which \$426,714 is due within one year.

Additional information of the City's long-term debt can be found in Note 8 on pages 45-49 of this report.

**CITY OF PETAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

CURRENT ISSUES

The City of Petal is currently committed to a \$2.5 million bond issue that primarily funds projects to service our newly annexed area. These projects include the construction of a new fire station, the installation of sewer-lines along Hwy 42 East up to Herrington Road, and the expansion of fire-lines up to and along the same point.

The City of Petal will oversee the finalized widening construction project along South Main St. This project began in 2001 and is scheduled to be completed in April of 2005. This project was funded, along with other capital expenditures, through a \$1.2 million bond issue.

Evelyn Gandy Parkway is on track to have two phases of a three phase project completed within the next two years. Phase I will have the parkway constructed from US Interstate 59 to State Hwy 11, Phase II will have the parkway constructed from State Hwy 11 to St Hwy 42, and Phase III will be widening of State Hwy 48 from the ending point of Phase 2 going East up to a line just above Sunrise Road and Macedonia Road intersection.

The City of Petal has been designated as a recipient of a \$1.5 million in federal money through the Transportation Reauthorization Bill enacted during 2005 congressional session. This money will be used to extend Byrd Parkway to Old Richton Road. This will open up the opportunity to build new school, new youth baseball facility, solve transportation problems and enhance community and economic development.

Overall, the City of Petal is growing a rapid pace. Transportation is the number one issue in Petal, which is why a majority of our focus has been spent on solving this problem. The City's administration will continue to provide effective leadership by updating and re-emphasizing our Comprehensive Plan, evaluating and maintaining our streets and bridges, providing multiple recreational opportunities for all ages, upgrading traffic signals, providing necessary services to newly annexed area, and any other actions necessary to keep pace with this rapid rate of growth.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

If you have any questions about this report, contact the Mayor's Office of the City of Petal, 102 West 8th Avenue, Petal, MS 39465.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF PETAL
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2004

Exhibit A

	Governmental Activities	Business-type Activities	Total
ASSETS AND OTHER DEBITS			
Cash and cash equivalents	\$ 3,864,195	\$ 397,403	\$ 4,261,598
Receivables, net of allowance for uncollectibles	657,625	123,369	780,994
Internal balances	20,235	(20,235)	-
Inventory, at cost		10,000	10,000
Prepays	23,364	5,541	28,905
Restricted Assets			
Cash Bond Reserves		137,292	137,292
Customer deposits		116,465	116,465
Capital assets, net	7,131,542	2,649,401	9,780,943
Capitalized interest and bond costs (net)	113,355	24,970	138,325
Total Assets	<u>\$ 11,810,316</u>	<u>\$ 3,444,206</u>	<u>\$ 15,254,522</u>
LIABILITIES AND OTHER CREDITS			
Accounts Payable	\$ 614,663	\$ 65,728	\$ 680,391
Other paybles	1,003,464	1,766	1,005,230
Customer deposits		116,465	116,465
Compensated absences	29,461	4,089	33,550
Noncurrent liabilities:			
Capital related debt due within one year	283,939	142,775	426,714
Capital related debt due in more than one year	4,316,925	795,965	5,112,890
Total Liabilities	<u>6,248,452</u>	<u>1,126,788</u>	<u>7,375,240</u>
NET ASSETS			
Invested in capital assets, net of related debt	2,530,678	1,710,661	4,241,339
Restricted for debt covenants		137,292	137,292
Unrestricted	3,031,186	469,465	3,500,651
Total Net Assets	<u>5,561,864</u>	<u>2,317,418</u>	<u>7,879,282</u>
 Total Liabilities and Net Assets	 <u>\$ 11,810,316</u>	 <u>\$ 3,444,206</u>	 <u>\$ 15,254,522</u>

The notes to the financial statements are an integral part of this statement.

CITY OF PETAL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Exhibit B

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental activities:							
General government	\$ 633,089	\$ -	\$ -	\$ -	\$ (633,089)	-	\$ (633,089)
Public safety	2,388,520	321,038	129,781	-	(1,937,701)	-	(1,937,701)
Public works	1,243,788	160	2,500	1,711,366	470,238	-	470,238
Culture & recreation	346,193	61,721	-	-	(284,472)	-	(284,472)
Interest on long-term debt	111,109	-	-	-	(111,109)	-	(111,109)
Total governmental activities	<u>4,722,699</u>	<u>382,919</u>	<u>132,281</u>	<u>1,711,366</u>	<u>(2,496,133)</u>	<u>-</u>	<u>(2,496,133)</u>
Business-type activities							
Water & Sewer	988,616	980,998	-	34,820	-	\$ 27,202	27,202
Solid Waste	422,485	416,797	-	-	-	(5,688)	(5,688)
Total business-type activities	<u>1,411,101</u>	<u>1,397,795</u>	<u>-</u>	<u>34,820</u>	<u>-</u>	<u>21,514</u>	<u>21,514</u>
Total	<u>\$ 6,133,800</u>	<u>\$ 1,780,714</u>	<u>\$ 132,281</u>	<u>\$ 1,746,186</u>	<u>(2,496,133)</u>	<u>21,514</u>	<u>(2,474,619)</u>
General revenues:							
Property taxes					1,671,591	-	1,671,591
Sales taxes					1,400,222	-	1,400,222
Franchise taxes					316,446	-	316,446
Motor fuel taxes					4,322	-	4,322
Alcoholic beverage taxes					2,700	-	2,700
Pro-rata County road taxes					202,053	-	202,053
Grants and contributions not restricted to specific programs					202,612	-	202,612
Unrestricted investment earnings					25,311	3,716	29,027
Gain on sale of capital assets					31,489	-	31,489
Transfers					<u>34,847</u>	<u>(34,847)</u>	<u>-</u>
Total general revenues and transfers					<u>3,891,593</u>	<u>(31,131)</u>	<u>3,860,462</u>
Change in net assets					<u>1,395,460</u>	<u>(9,617)</u>	<u>1,385,843</u>
Net assets - beginning					4,178,554	2,327,035	6,505,589
Prior period adjustment					<u>(12,150)</u>	<u>-</u>	<u>(12,150)</u>
Net assets - ending					<u>\$ 5,561,864</u>	<u>\$ 2,317,418</u>	<u>\$ 7,879,282</u>

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

CITY OF PETAL
BALANCE SHEET-GOVERNMENTAL FUNDS
SEPTEMBER 30, 2004

Exhibit C

	General Fund	1.2 Construction / South Main Street Fund	2.5 Construction Fund	Other Governmental Funds	Total Governmental Funds
ASSETS AND OTHER DEBITS					
Cash and other deposits	\$ 867,815	\$ 24	\$ 2,358,509	\$ 637,847	\$ 3,864,195
Franchise fees receivable	81,664	-	-	-	81,664
Other receivable, net of \$927,894 allowance for uncollectables	- 5,925	- -	- -	- -	- 5,925
Due from other governments	165,463	402,444	-	2,129	570,036
Due from other funds	20,235	-	-	-	20,235
Prepays	23,364	-	-	-	23,364
Total Assets	\$ 1,164,466	\$ 402,468	\$ 2,358,509	\$ 639,976	\$ 4,565,419
LIABILITIES AND OTHER CREDITS					
Accounts payable	\$ 169,294	\$ 316,846	\$ 121,784	\$ 6,739	\$ 614,663
Deferred Revenue	5,925	-	-	-	5,925
Other payables	-	80,668	-	-	80,668
Total Liabilities	175,219	397,514	121,784	6,739	701,256
FUND BALANCES:					
Reserved	-	-	-	-	-
Reserved for bond	-	-	-	228,723	228,723
Reserved for prepaids	23,364	-	-	-	23,364
Unreserved, undesignated reported in :	-	-	-	-	-
General fund	965,883	-	-	-	965,883
Special revenue funds	-	4,954	-	404,514	409,468
Capital projects funds	-	-	2,236,725	-	2,236,725
Total fund balances	989,247	4,954	2,236,725	633,237	3,864,163
Total liabilities and fund balances	\$ 1,164,466	\$ 402,468	\$ 2,358,509	\$ 639,976	\$ 4,565,419

The notes to the financial statements are an integral part of this statement.

**CITY OF PETAL
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2004**

Exhibit C-1

Total Fund Balance-Governmental Funds (Exhibit C)	\$ 3,864,163
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$4,402,378	7,131,542
Other long-term assets are not available to pay for current-period expenditures, and, therefore, are deferred in the funds	5,925
Bond issuance costs are deferred in the Statement of Net Assets and amortized over the term of the bonds	113,355
Long-term liabilities, including bonds payable are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(5,553,121)</u>
Total Net Assets-Governmental Activities (Exhibit A)	<u>\$ 5,561,864</u>

The notes to the financial statements are an integral part of this statement.

CITY OF PETAL
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES-GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Exhibit D

	General Fund	1.2 Construction / South Main Street Fund	2.5 Construction Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Property taxes	\$ 1,492,367	\$ -	\$ -	\$ 179,224	\$ 1,671,591
Licenses and permits	410,212	-	-	-	410,212
Intergovernmental revenue	2,152,029	1,167,326	-	276,040	3,595,395
Charges for services	65,946	-	-	-	65,946
Fines and forfeitures	226,522	-	-	-	226,522
Miscellaneous	55,501	433	-	22,894	78,828
TOTAL REVENUE	4,402,577	1,167,759	-	478,158	6,048,494
EXPENDITURES					
General government	624,076	-	-	2,500	626,576
Public safety	2,228,176	-	1,038	295,925	2,525,139
Public works	1,048,552	1,635,757	217,237	500	2,902,046
Culture & recreation	312,988	-	-	-	312,988
Debt service					
Principal	49,354	-	-	130,660	180,014
Interest	16,227	-	-	90,382	106,609
Other	29	-	45,000	-	45,029
Agent fees	-	-	-	4,471	4,471
Total expenditures	4,279,402	1,635,757	263,275	524,438	6,702,872
Excess (deficiency) of revenues over expenditures	123,175	(467,998)	(263,275)	(46,280)	(654,378)
Other financing sources (uses):					
Transfers in	-	50,745	-	114,772	165,517
Transfers out	(69,430)	-	-	(61,240)	(130,670)
Proceeds of debt	204,000	-	2,500,000	-	2,704,000
Insurance proceeds	44,205	-	-	-	44,205
Total other financing sources (uses)	178,775	50,745	2,500,000	53,532	2,783,052
Excess (deficiency) of revenues and other sources over expenditures and other uses	301,950	(417,253)	2,236,725	7,252	2,128,674
Fund Balances - Beginning	699,447	422,207	-	625,985	1,747,639
Prior Period Adjustment	(12,150)	-	-	-	(12,150)
Fund Balances - Beginning, as restated	687,297	422,207	-	625,985	1,735,489
Fund Balances - Ending	\$ 989,247	\$ 4,954	\$ 2,236,725	\$ 633,237	\$ 3,864,163

The notes to the financial statements are an integral part of this statement.

CITY OF PETAL
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Exhibit D-1

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$	2,128,674
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		2,714,257
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In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas, in the governmental funds proceeds from the sale of capital assets increase financial resources and loss from the sale of capital assets decreases financial resources. This is the amount by which the proceeds from the sale of assets exceeds the gain on the sale of net assets.		(12,716)
---	--	----------

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount that debt proceeds exceeded debt payments in the current period.		(2,523,986)
--	--	-------------

Governmental funds report the effect of issuance costs and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This is the net effect of these differences in the treatment of long-term debt and related items.		37,037
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Fine revenue recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required in the Statement of Activities using the full-accrual basis of accounting.		4,451
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
This is the amount of increase in compensated absences.		(29,461)
This is the amount of increase in claims and judgments.		(922,796)

Change in Net Assets of Governmental Activities	\$	1,395,460
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The notes to the financial statements are an integral part of this statement.

CITY OF PETAL
STATEMENT OF NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2004

Exhibit E

	Business-type Activities - Enterprise funds		
	Water and Sewer Fund Current Year	Solid Waste Fund Current Year	Totals Current Year
ASSETS			
Cash and cash equivalents	\$ 375,189	\$ 22,214	\$ 397,403
Customer receivables, net of allowance	59,198	27,328	86,526
Unbilled Income	24,254	10,629	34,883
Due from other funds	-	5,249	5,249
Other receivables	1,960	-	1,960
Inventory, at cost	10,000	-	10,000
Prepays	5,541	-	5,541
Restricted Assets	-	-	-
Cash Bond Reserves	137,292	-	137,292
Customer deposits	116,465	-	116,465
Capital assets, net	2,649,401	-	2,649,401
Capitalized interest and bond costs (net)	24,970	-	24,970
Total Assets	<u>\$ 3,404,270</u>	<u>\$ 65,420</u>	<u>\$3,469,690</u>
LIABILITIES			
Accounts Payable	\$ 34,648	\$ 31,080	\$ 65,728
Due to other funds	5,484	20,000	25,484
Other paybles	1,766	-	1,766
Customer deposits	116,465	-	116,465
Compensated absences	4,089	-	4,089
Noncurrent liabilities:	-	-	-
Capital related debt due within one year	142,775	-	142,775
Capital related debt due in more than one year	795,965	-	795,965
Total Liabilities	<u>1,101,192</u>	<u>51,080</u>	<u>1,152,272</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,710,661	-	1,710,661
Restricted for debt covenants	137,292	-	137,292
Unrestricted	455,125	14,340	469,465
Total Net Assets	<u>2,303,078</u>	<u>14,340</u>	<u>2,317,418</u>
Total Liabilities and Net Assets	<u>\$ 3,404,270</u>	<u>\$ 65,420</u>	<u>\$3,469,690</u>

The notes to the financial statements are an integral part of this statement.

CITY OF PETAL
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR YEARS ENDED SEPTEMBER 30, 2004

Exhibit F

	Business-type Activities - Enterprise funds		
	Water and Sewer Fund Current Year	Solid Waste Fund Current Year	Totals Current Year
Operating revenues:			
Charges for services	\$ 858,694	\$ 416,797	\$1,275,491
Tap fees	10,445	-	10,445
Connect fees	15,718	-	15,718
Sewer treatment charges	96,141	-	96,141
	<u>980,998</u>	<u>416,797</u>	<u>1,397,795</u>
Operating expenses:			
Personnel services	335,096	18,197	353,293
Supplies and materials	70,879	-	70,879
Other services and charges	262,391	404,288	666,679
Capital repairs	73,856	-	73,856
Depreciation	186,782	-	186,782
Total operating expenses	<u>929,004</u>	<u>422,485</u>	<u>1,351,489</u>
Operating income (loss)	<u>51,994</u>	<u>(5,688)</u>	<u>46,306</u>
Other sources (uses)			
Intergovernmental	29,120	-	29,120
Investment earnings	3,707	9	3,716
Interest expense	(59,612)	-	(59,612)
Miscellaneous nonoperating revenue	5,700	-	5,700
Operating transfers out	(34,847)	-	(34,847)
	<u>(55,932)</u>	<u>9</u>	<u>(55,923)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(3,938)	(5,679)	(9,617)
Total net assets - beginning	<u>2,307,016</u>	<u>20,019</u>	<u>2,327,035</u>
Total net assets - ending	<u>\$ 2,303,078</u>	<u>\$ 14,340</u>	<u>\$2,317,418</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF PETAL
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR YEAR ENDED SEPTEMBER 30, 2004**

Exhibit G

	Water and Sewer Fund	Solid Waste Fund	Totals
Cash flow from operating activities:			
Cash received from customers (excluding deposit)	\$ 1,005,731	\$ 407,065	\$ 1,412,796
Cash paid to suppliers	(449,278)	(400,509)	(849,787)
Cash paid to employees	(319,582)	(18,197)	(337,779)
Net cash provided (used) by operating activities	<u>236,871</u>	<u>(11,641)</u>	<u>225,230</u>
Cash flow from non-capital financing activities:			
Operating transfers out	(34,847)	-	(34,847)
Operating transfers in	29,120	-	29,120
Net cash provided by non-capital financing activities	<u>(5,727)</u>	<u>-</u>	<u>(5,727)</u>
Cash flow from capital and related financing activities:			
Principal paid on bonds	(120,000)	-	(120,000)
Principal paid on notes	(86,894)	-	(86,894)
Interest paid	(59,612)	-	(59,612)
Net cash provided (used) by capital and related financing activities	<u>(266,506)</u>	<u>-</u>	<u>(266,506)</u>
Cash flow from investing activities:			
Purchase of fixed assets	(17,171)	-	-
Interest received	3,707	9	3,716
Net cash provided (used) by investing activities	<u>(13,464)</u>	<u>9</u>	<u>3,716</u>
Net increase (decrease) in cash for the year	(48,826)	(11,632)	(60,458)
Cash and restricted cash - October 1, 2003	<u>677,772</u>	<u>33,846</u>	<u>711,618</u>
Cash and restricted cash - September 30, 2004	<u>\$ 628,946</u>	<u>\$ 22,214</u>	<u>\$ 651,160</u>

The notes to the financial statements are an integral part of this statement.

CITY OF PETAL
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR YEAR ENDED SEPTEMBER 30, 2004

Exhibit G (cont.)

Reconciliation of Operating Income to Net
Cash Provided by Operating Activities

Operating income (loss)	\$ 51,994	\$ (5,688)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	186,782	-
Other nonoperating revenue	5,700	-
(Increase) decrease in accounts receivable	485	9,732
(Increase) decrease in prepaid assets	(5,541)	-
Increase (decrease) in other liabilities	(7,329)	-
Increase (decrease) in accounts payable	<u>4,780</u>	<u>(15,685)</u>
Net cash provided by operating activities	<u>\$ 236,871</u>	<u>\$ (11,641)</u>
Other Required Disclosures:		
Interest expense	<u>\$ 59,612</u>	<u>-</u>

**CITY OF PETAL
STATEMENT OF NET ASSETS
FIDUCIARY FUND
SEPTEMBER 30, 2004**

Exhibit H

	Agency Funds
	<hr/>
ASSETS	
Cash	<u>\$ 100,231</u>
LIABILITIES	
Assets held for others	<u>\$ 100,231</u>

The notes to the financial statements are an integral part of this statement.

CITY OF PETAL

NOTES TO FINANCIAL STATEMENTS

CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Petal, Mississippi (the City) was incorporated in 1974. The City operates under Mayor, Alderman form of government and provides the following services:

- Public Safety
- Public Works
- Health and Welfare
- Culture and Recreation
- General Administration.

A. FINANCIAL REPORTING ENTITY

The City of Petal is a municipal corporation governed by an elected mayor and five-member council. The accompanying financial statements present the government and its blended component unit, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations.

Blended component unit.

The Petal Public Improvement Corporation is a not-for-profit entity formed to finance the construction of a multi-purpose center to be leased to the City. The Board of Directors of Petal Public Improvement Corporation is composed of the Mayor and Aldermen of the City of Petal. The Petal Public Improvement Corporation is reported as a governmental fund.

Excluded from the reporting entity.

The City's financial reporting entity does not include the following entities, which are not component units of the City: Petal Municipal Separate School District, Area Development Partnership, Pine Belt Regional Waste Authority, Petal Volunteer Fire Department, Petal Police Auxiliary.

B. BASIS OF PRESENTATION

The City's basic financial statement consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide and Fund Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units.

CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific service, program or department and therefore clearly identifiable to a particular function. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectable within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as

**CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2004**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The City reports the following major governmental funds:

General Fund – This is the City’s primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund.

1.2 Million Bond Construction Fund – This fund accounts for the construction proceeds of the Series 2001 General Obligation Bond. A portion of that bond issuance provided the 20% local match for a \$2.5 million dollar U.S. Department of Transportation Highway Planning and Construction (Federal-Aid Highway Project) Surface Transportation Program grant to reconstruct South Main Street.

2.5 Million Bond Construction Fund – This fund accounts for the construction proceeds of the Series 2004 General Obligation Bond.

All other governmental funds not meeting the criteria established for major funds are presented in the other governmental column of the fund financial statements.

The City reports the following fund types:

GOVERNMENTAL FUNDS:

- Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted for specific expenditure purposes.
- Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.
- Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

FIDUCIARY FUNDS:

- Agency Funds are used to report resources held by the district in a purely custodial capacity (assets equal liabilities) and do not involve measurement of results of operations.

**CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2004**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

Additionally the City reports the following major proprietary funds:

Water and Sewer Enterprise Fund – This fund accounts for the activities of the City's water and sewer operations.

Solid Waste Disposal – This fund accounts for the activities of the City's solid waste collection and disposal operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connections with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Water and Sewer Enterprise Fund and of the City's Solid Waste Enterprise fund are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and

**CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2004**

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

When both restricted and unrestricted resources are available for use, it is the government's policy to use the restricted resources first, then unrestricted resources as they are needed.

D. ACCOUNT CLASSIFICATION

The account classifications used in the financial statements conform to the classifications prescribed in the *Financial Accounting Manual for Mississippi Municipalities* issued by the Office of the State Auditor.

E. ENCUMBRANCES

An encumbrance system is not maintained to account for commitments resulting from approved purchase orders, work orders and contracts.

F. CASH AND CASH EQUIVALENTS

The City deposits excess funds in the financial institutions selected by the board of alderman. State statutes specify how these depositories are to be selected.

Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with maturities of three months or less from the end of the fiscal year. Cash and cash equivalents are valued at cost.

G. INVESTMENTS

The city is allowed, by statute, to invest excess funds in any bonds or other direct obligations of the United States of America or the state of Mississippi, or of any county or municipality of this state, when such county or municipal bonds have been properly approved; or in interest-bearing time certificates of deposit or interest-bearing accounts with any financial institution approved for the deposit of state funds; or in any type of investment permitted by sections 27-105-33(d) and 27-105-33(e), Miss. Code Ann. (1972).

**CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2004**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

For accounting purposes, demand deposits and short-term investments with maturities of three months or less from the end of the fiscal year are classified as cash and cash equivalents and are valued at cost.

H. RECEIVABLES

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as with “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade receivables are shown net of an allowance for uncollectables. Trade accounts receivable in excess of 180 days comprise the trade accounts receivable allowance for uncollectables.

The valuation allowance for the General Fund police fines is based on the City’s estimation of amounts that cannot be collected.

I. INVENTORIES AND PREPAID ITEMS

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in both governmental and fund financial statements. Prepaid items, such as prepaid insurance, are not reported for governmental fund types since the costs of such items are accounted for as expenditures in the period of acquisition.

J. RESTRICTED ASSETS

Certain proceeds from the Water and Sewer’s enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The “revenue bond contingent” account is used to report resources set aside to subsidize potential deficiencies from the Water and Sewer’s operation that

CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

could adversely affect debt service payments. The “revenue bond current debt service account” is used to segregate resources accumulated for debt service payments over the next twelve months. The “revenue bond cushion” account is used to report resources set aside to make up potential fund deficiencies in the revenue bond current debt service account. The “revenue bond depreciation” account is used to report resources set aside to fund asset renewals and replacements, as well as to make up potential fund deficiencies in the revenue bond current debt service account.

K. CAPITAL ASSETS

Capital assets, which include property, plant, equipment, and infrastructure (e.g., roads, bridges, sidewalks, drainage systems, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, other than infrastructure assets, are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated life in excess of two years. The capitalization threshold for buildings and improvements other than buildings is \$50,000 and \$25,000, respectfully. The government reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include all such items regardless of the acquisition date or amount. The City was able to estimate the historical cost for the initial reporting of these assets through back-trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the City constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the government values these capital assets at the estimated fair value of the item at the date of its donation.

**CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2004**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

No interest is capitalized on self-constructed capital assets of business-type activities because not capitalizing interest does not have a material effect on the City's financial statements.

Property, plant, and equipment of the City is depreciated using the straight line method over the following estimated useful lives, with a full year's depreciation expense taken for all purchases and sales of capital assets during the year. Land is not depreciated.

<u>Asset</u>	<u>Years</u>
Buildings	40
Improvements other than buildings	20
Public domain infrastructure (roads)	20
System infrastructure	20
Fire trucks	15
Heavy equipment	10
Furniture and fixtures	7
Vehicles and equipment	5
Computer equipment	3

L. COMPENSATED ABSENCES

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. The City's full liability in the amount of \$33,550 for accumulated unpaid personal leave is reported as a liability in the City's Statement of Net Assets. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

M. LONG-TERM LIABILITIES

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the

**CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2004**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

life of the bonds. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

N. EQUITY CLASSIFICATIONS

Government-wide Financial Statements:

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, constructions or improvement of those assets.
2. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Financial Statements:

In the fund financial statements, government funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. Following is a description of fund designation used by the City:

**CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2004**

NOTE 1 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

O. PROPERTY TAX REVENUES

Numerous statutes exist under which the Board of Aldermen may levy property taxes. The selection of authorities is made based on the objectives and responsibilities of the City. Restrictions associated with property tax levies vary with the statutory authority. The amount of increase in certain property taxes is limited by state law. Generally, this restriction provides that these tax levies shall produce no more than 110% of the amount which resulted from the assessments of the previous year.

The Board of Aldermen, each year at a meeting in September, levies property taxes for the ensuing fiscal year which begins October 1. Property taxes become a lien on January 1 of the current year, and are due on or before February 1. Taxes on motor vehicles and mobile homes become a lien and are due in the month that coincides with the month of original purchase.

U. S. generally accepted accounting practices require property taxes to be recognized at the levy date if measurable and available. All property taxes are recognized as revenue in the year for which they are levied. Motor vehicle and motor home taxes do not meet the measurability and collectibility criteria for property tax recognition because the lien and due date cannot be established until the date of original purchase occurs.

Section 35-57-1 et seq., Mississippi Code 1972, requires that the City levy and collect all taxes for and on behalf of the municipal separate school district. Section 39-3-7, Mississippi Code 1972, authorized the City to levy and collect a tax not in excess of three mills for the support of any public library system located within the municipality. Ad valorem taxes collected and settled in accordance with the above-noted statutory authorities are not recognized as revenues and expenditures of the City.

The City of Petal entered into an inter-local agreement with Forrest County contracting for the County to bill and collect the City's taxes. The County retains a 5% collection fee on automobile and mobile homes advalorem and a 0.5% fee for real and personal property advalorem collections. Lien dates for personal and real property are in August. Delinquent tax payments, received throughout the year, are recognized as revenue in the year received. The mileage rates levied were:

**CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2004**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

<u>City of Petal</u>	<u>2003-2004</u>
General Fund	29.61
1.2 M GO Bond Debt Service	2.81
Library	1.5
Total City Mills	<u>33.92</u>
<u>Petal Municipal Separate School District</u>	
District Maintenance	55
School Building Program	1.91
Revenue Shortfall	0.66
Total School District Mills	<u>57.57</u>

P. BUDGETS AND BUDGETARY ACCOUNTING

The annual budget is adopted by the Board of Aldermen and filed with the taxing authority. Amendments can be made on the approval of the Board of Aldermen. By Statute, the final budget and tax levy must be adopted on or before September 15 for the following fiscal year.

Formal budgetary integration is employed as a management control device during the year. Mississippi laws require that municipalities budget governmental fund types on a modified-cash basis. Claims that have been incurred prior to the end of the year and that are paid within 30 days are recorded under the modified accrual basis. Prior year claims that are paid after 30 days revert to the cash basis. All revenue is accounted for under the cash basis. The required budgetary basis is therefore not considered a generally accepted accounting principal.

Proprietary funds are budgeted on a modified accrual basis. Modifications to the accrual basis include budgeting for capital expenditures, debt principal payments and for depreciation.

Q. INTER GOVERNMENTAL REVENUES IN GOVERNMENTAL FUNDS

Intergovernmental revenues, consisting of grants, entitlements and shared revenues, are usually recorded in Governmental Funds when measurable and available. However, the “available” criterion applies for certain federal grants and shared revenues when the expenditure is made because expenditure is the prime factor for determining eligibility. Similarly, if cost sharing or because expenditure is the prime factor for determining eligibility. Similarly, if cost sharing or matching requirements exist, revenue recognition depends on compliance with these requirements.

**CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2004**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

R. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2- CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

For the fiscal year ended September 30, 2004, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis – for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements for State and Local Governments: Omnibus*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures*; and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

At September 30, 2004, there was no effect on fund balances as a result of implementing GASB Statements 37 and 38.

GASB Statement No. 34 creates new basic financial statements for reporting on the City's financial activities. The financial statements now include government-wide financial statements prepared on the accrual basis of accounting, and fund financial statements prepared on the modified accrual basis of accounting, which present information for individual major funds rather than by fund type.

The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at September 30, 2004, caused by the conversion to GASB Statement No. 34.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could rise, in interpretation and practice.

**CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2004**

**NOTE 2- CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF
FUND BALANCE**

Governmental funds and Governmental Activities		
Governmental Fund balances as Previously Reported, Sept. 30, 2003	\$	1,747,639
GASB Statement No. 34 Adjustments:		
Capital Assets, net accumulated depreciation		4,430,001
General Long-term Debt		(2,076,878)
Bond issuance costs and capitalized interest, net accumulated amortization		75,196
Court fines receivable, net \$927,894 allowance		2,596
Governmental Net Assets, as Restated, Sept. 30, 2003	\$	<u><u>4,178,554</u></u>

NOTE 3- CASH AND CASH EQUIVALENTS, AND INVESTMENTS

CASH AND CASH EQUIVALENTS.

The collateral for public entities' deposits in financial institutions are held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits.

In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

The carrying amount of the City's deposits with financial institutions was \$4,614,867, and the bank balance was \$4,664,072.

NOTE 4- ACCOUNTS RECEIVABLE AND ALLOWANCE ACCOUNT

Receivables as of the year end for the City's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 4- ACCOUNTS RECEIVABLE AND ALLOWANCE ACCOUNT

	General	1.2 Construction / South Main Street	Nonmajor Govern- mental	Water & Sewer Enterprise	Solid Waste Enterprise	Total
Receivables:						
Taxes	\$ 23,114	\$ -	\$ 2,129	\$ -	\$ -	\$ 25,243
Accounts	81,664	-	-	89,573	39,909	211,146
Other Receivable	933,819	-	-	-	-	933,819
Intergovernmental	<u>142,349</u>	<u>402,444</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>544,793</u>
Gross Receivables	1,180,946	402,444	2,129	89,573	39,909	1,715,001
Less: allowance for uncollectables	<u>(927,894)</u>	<u>-</u>	<u>-</u>	<u>(4,161)</u>	<u>(1,952)</u>	<u>(934,007)</u>
Total net receivables	<u>\$ 253,052</u>	<u>\$ 402,444</u>	<u>\$ 2,129</u>	<u>\$ 85,412</u>	<u>\$ 37,957</u>	<u>\$ 780,994</u>

NOTE 5- INTER-FUND TRANSACTIONS AND BALANCES

Timing differences between the payments of expenses for other funds and the subsequent reimbursements are reflected in the inter-fund accounts. The following is a summary of inter-fund balances as of September 30, 2004:

Due to/from other funds

Receivable fund	Payable Fund	Amount
General Fund	Solid Waste Enterprise Fund	\$ 20,000
	Water and Sewer Enterprise Fund	235
Solid Waste Enterprise Fund	Water and Sewer Enterprise Fund	<u>5,249</u>
Total		<u>\$ 25,484</u>

Transfers are used to 1) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due, 2) move restrictive amounts from borrowings to the debt service fund to establish mandatory reserve accounts, 3) move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

Transfers In/Out:

Transfers In	Transfers Out:	Amount
Major Fund:		
1.2 Construction Fund	General Fund	\$ 9,605
1.2 Construction Fund	Nonmajor Governmental Funds	41,140
Nonmajor Governmental Funds	General Fund	59,825
Nonmajor Governmental Funds	Water & Sewer Fund	34,847
Nonmajor Governmental Funds	Nonmajor Governmental Funds	20,100
		<u>\$ 165,517</u>

NOTE 6- CAPITAL ASSETS

The following is a summary of changes in capital assets for governmental activities:

Governmental Activities	Balance 10/1/2003	Adjustments	Additions	Deletions	Balance 9/30/2004
Capital assets not being depreciated:					
Land and easements	\$ 268,657	-	-	-	268,657
Construction in Progress	-	-	1,859,799	-	1,859,799
Total assets not being depreciated	<u>268,657</u>	<u>-</u>	<u>1,859,799</u>	<u>-</u>	<u>2,128,456</u>
Capital assets being depreciated:					
Buildings	1,209,071	(444,404)	-	-	764,667
Improvements other than buildings	236,232	(31,432)	-	-	204,800
Equipment:					-
Office & Other Equipment	39,992	22,732	41,258	-	103,982
Motor vehicles	535,430	19,294	276,794	(92,019)	739,499
Heavy Equipment	207,278	(68,912)	22,498	(35,140)	125,724
Sewer system	5,562,775	(5,562,775)	-	-	-
Infrastructure	-	6,440,738	544,016	-	6,984,754
Assets held under capital lease	229,548	48,491	204,000	-	482,039
Total assets being depreciated	<u>8,020,326</u>	<u>423,732</u>	<u>1,088,566</u>	<u>(127,159)</u>	<u>9,405,465</u>
Totals at historical cost	<u>8,288,983</u>	<u>423,732</u>	<u>2,948,365</u>	<u>(127,159)</u>	<u>11,533,921</u>
Less accumulated depreciation					
Buildings	-	(184,901)	(15,294)	-	(200,195)
Improvements other than buildings	-	(155,648)	(8,192)	-	(163,840)
Equipment:					
Office & Other Equipment	-	(48,408)	(14,179)	-	(62,587)
Motor vehicles	-	(436,519)	(43,792)	82,816	(397,495)
Heavy Equipment	-	(114,744)	(4,221)	31,626	(87,339)
Infrastructure	-	(3,250,426)	(83,233)	-	(3,333,659)
Assets held under capital lease	-	(92,067)	(65,197)	-	(157,264)
Total accumulated depreciation	<u>-</u>	<u>(4,282,713)</u>	<u>(234,108)</u>	<u>114,442</u>	<u>(4,402,379)</u>
Governmental activities capital assets, net	<u>\$ 8,288,983</u>	<u>(3,858,981)</u>	<u>2,714,257</u>	<u>(12,717)</u>	<u>7,131,542</u>

CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 6- CAPITAL ASSETS

Depreciation expense was charged to the following governmental functions:

General government	\$ 4,829
Public Safety	92,968
Public Works, which includes the depreciation of general infrastructure assets	104,223
Culture and Recreation	32,088
Total governmental activities depreciation expense	<u>\$ 234,108</u>

The following is a summary of changes in capital assets for business-type activities:

Business-type Activities	Balance 10/1/2003	Adjustments	Additions	Deletions	Balance 9/30/2004
Water and Sewer:					
Land and easements	\$ 21,993	-	-	-	21,993
Capital assets being depreciated:					
Buildings	79,939	-	-	-	79,939
Water/Sewer systems	5,392,838	5,562,775	-	-	10,955,613
Operating Equipment	359,948	-	17,171	-	377,119
Total assets being depreciated	<u>5,832,725</u>	<u>5,562,775</u>	<u>17,171</u>	<u>-</u>	<u>11,412,671</u>
Totals at historical cost	<u>5,854,718</u>	<u>5,562,775</u>	<u>17,171</u>	<u>-</u>	<u>11,434,664</u>
Less accumulated depreciation					
Land and easements					-
Buildings	(68,848)	-	(1,701)	-	(70,549)
Water/Sewer systems	(2,662,908)	(5,562,775)	(153,185)	-	(8,378,868)
Operating Equipment	(303,950)	-	(31,896)	-	(335,846)
Total accumulated depreciation	<u>(3,035,706)</u>	<u>(5,562,775)</u>	<u>(186,782)</u>	<u>-</u>	<u>(8,785,263)</u>
Water and Sewer capital assets, net	<u>2,819,012</u>	<u>-</u>	<u>(169,611)</u>	<u>-</u>	<u>2,649,401</u>
Solid Waste:					
Capital assets being depreciated:					
Operating Equipment	6,884	-	-	-	6,884
Less accumulated depreciation	-	-	-	-	-
Operating Equipment	(6,884)	-	-	-	(6,884)
Water and Sewer capital assets, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Business-type activities	<u>\$ 2,819,012</u>	<u>-</u>	<u>(169,611)</u>	<u>-</u>	<u>2,649,401</u>

Depreciation expense charged to the business-type activities totaled \$186,782.

Adjustments: All previously reported assets below the State suggested threshold amounts have been deleted for financial statement reporting purposes.

CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 6- CAPITAL ASSETS

Construction Commitments:

The City has active construction projects as of September 30, 2004. The projects include South Main Street reconstruction, relocation of mains under the South Main Street reconstruction, and sewer expansion in the newly annexed areas of Petal. At year end, the City's commitments with contractors are as follows:

<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
South Main Street Reconstruction	\$ 1,642,564	748,203
Relocate main under South Main Street	14,735	107,093
Sewer expansion newly annexed areas	202,500	67,500
	<u>\$ 1,859,799</u>	<u>922,796</u>

NOTE 7- CAPITAL LEASES

As Lessee:

The City is obligated for the following capital assets acquired through capital leases as of September 30, 2004:

<u>Classes of Property</u>	<u>Governmental Activity</u>
Mobile Equipment	\$ 302,291
Mobile Equipment - Fire Truck	179,748
Total	482,039
Less: Accumulated depreciation	(157,264)
Propety under capital lease	<u>\$ 324,775</u>

The following is a schedule by years of the total payments due as of September 30, 2004:

<u>Year Ending September 30,</u>	<u>Governmental activities</u>	
	<u>Principle</u>	<u>Interest</u>
2005	\$ 98,474	7,104
2006	74,504	4,347
2007	70,086	2,173
	<u>\$ 243,064</u>	<u>13,624</u>

**CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2004**

NOTE 8- LONG-TERM LIABILITIES

GENERAL OBLIGATION BONDS

The City issues general bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. The original amount of general obligation bonds issued in prior years was \$1,900,000. During the year, general obligation bonds totaling \$2,500,000 were issued to build and equip a new fire station and to extend sewer lines to the newly annexed area of the City.

General Obligation Bonds are direct obligations issued on a pledge the full faith and credit of the City. These bonds generally are issued as 20-year serial bonds.

REVENUE BONDS

Water and Sewer Revenue Bonds constitute special obligations of the City solely secured by a lien on and pledge of the net revenues of the water and sewer system. The Revenue Bonds are collateralized by the revenue of the water and sewer system and the various special funds established by the bond covenants. The covenants provide that the revenue of the system is to be used first to pay operating and maintenance expense of the system and second to establish and maintain the Revenue Bond accounts. Remaining revenues may be used for any lawful purpose. The City is in compliance with all significant financial requirements as of September 30, 2004.

TAX INCREMENT FINANCING (TIF) BONDS

TIF Bonds are used by the City to encourage economic development in a defined area by providing the necessary infrastructure for a development project. The City pledged the increased real and property taxes from the project and, Forrest County pledged the increased real taxes on the project, for payment of interest and principal on the bonds. The City does not pledge the full faith and credit of the City to repay the TIF bonds. The City is not obligated to repay the debt if the tax increment is insufficient to make the annual payment. These bonds carry a higher interest rate due to the risk of economic downturn or limited revenue growth in the defined TIF area. The City issued one \$600,000 TIF Bond in 2002.

STATE LOANS

The City made two Sewer Abatement Loans through the state that have a total outstanding balance of \$25,000. These loans are secured solely by a special pledge of the City's sales tax revenues.

**CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2004**

NOTE 8- LONG-TERM LIABILITIES (cont)

In 1995, the City made a \$807,757 loan through the State Water Pollution Control Revolving Loan Fund (SRF), which is 80% federally funded. The outstanding balance is \$506,140. This loan is secured solely by a special pledge of the City's sales tax revenues. Federal reporting regulations require the disclosure of the amount of federal loans on the Schedule of Federal Expenditures, therefore 80%, \$404,912, is disclosed on the Schedule of Federal Expenditures.

CERTIFICATES OF PARTICIPATION

As discussed in Note 1, the City's blended component unit, the Petal Public Improvement Corporation, issued \$550,000 Certificates of Participation in 1994 to finance the construction of a multi-purpose center to be leased to the City. The outstanding balance is \$200,000. The Certificates of Participation are secured by the asset being leased and are subject to annual appropriation by the Board of Aldermen.

OTHER LOANS

The City may borrow for any purpose for which Bonds, Notes, or Certificates of Indebtedness are authorized by law (Small Issue Authority), provided the total indebtedness incurred under this authority not exceed the greater of one percent of the assessed value or \$250,000. These loans are included in computing the statutory limitation upon indebtedness. The rate of interest on these loans may not exceed eleven percent and the loans must be repaid within five years. The outstanding balance of the two loans issued by the City is \$223,000.

CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 8- LONG-TERM LIABILITIES (cont)

The following is a summary of changes in long-term liabilities and other obligations for governmental activities:

	Balance October 1, 1003	Additions	Reductions	Balance September 30, 2004	Amount due within one year
<u>GENERAL OBLIGATION BONDS:</u>					
\$1.2M G.O. Bonds, Series 2001, 5.20% - 5.50% matures 2016	\$ 1,085,000	-	60,000	1,025,000	65,000
2.5M G.O. Bonds, Series 2004 4.00% - 5.00%, matures 2024	-	2,500,000	-	2,500,000	75,000
TOTAL G.O. BONDS - Governmental activities	1,085,000	2,500,000	60,000	3,525,000	140,000
<u>OTHER NOTE</u>					
\$82,000 Recreation Building Negotiable Note, 5.28%, matures 2006	49,200	-	16,400	32,800	16,400
<u>LIMITED OBLIGATION BONDS</u>					
\$600,000 Tax Increment Limited Obligation Bonds, Series 2002, 3.5% - 4.75%, matures 2013	600,000	-	-	600,000	50,000
<u>CAPITAL LEASES</u>					
Fire Truck Capital Lease, 4.72%, matures 2005	36,713	-	25,660	11,053	11,053
Police vehicle Capital Lease, 3.79%, matures 2005	24,618	-	18,347	6,271	6,271
Police vehicle Capital Lease, 4.09%, matures 2006	36,347	-	14,607	21,740	15,215
Police vehicle Capital Lease, matures 2007	-	204,000	-	204,000	-
TOTAL CAPITAL LEASES	97,678	204,000	58,614	243,064	32,539
<u>CERTIFICATES OF PARTICIPATION</u>					
\$550,000 Civic Center Certificates of Participation 5.6% - 8.00%, matures 2008	245,000	-	45,000	200,000	45,000
TOTAL GOVERNMENTAL PURPOSE DEBT	\$ 2,076,878	2,704,000	180,014	4,600,864	283,939

CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 8- LONG-TERM LIABILITIES (cont)

The following is a summary of changes in long-term liabilities and other obligations for proprietary activities:

	Balance October 1, 1003	Additions	Reductions	Balance September 30, 2004	Amount due within one year
BUSINESS-TYPE ACTIVITIES					
<u>GENERAL OBLIGATION ENTERPRISE</u>					
<u>BONDS</u>					
\$700,000 W & S Refunding Bonds, Series 1989, 7.54%, matures 2004	\$ 70,000	-	70,000	-	-
<u>REVENUE BONDS</u>					
\$825,000 W & S Series 1990, 7.0% - 7.2%, matures 2010	430,000	-	50,000	380,000	55,000
<u>OTHER LOANS</u>					
\$138,000 Sewer Treatment Loan	55,200	-	27,600	27,600	27,600
Sewer Abatement Loan	45,000	-	20,000	25,000	20,000
Sewer Abatement Loan	883	-	883	-	-
\$807,757 1995 SRF-C280770-01-2, 4.5%, matures 2014	544,551	-	38,411	506,140	40,175
TOTAL OTHER LOANS	645,634	-	86,894	558,740	87,775
TOTAL BUSINESS-TYPE ACTIVITY DEBT \$	1,145,634	-	206,894	938,740	142,775

The following is a schedule by years of the total payments due on this debt:

Governmental Activities:

Year Ended September 30	General Obligation Bonds		Limited Obligation - Governmental	
	Principle	Interest	Principle	Interest
2005	\$ 140,000	161,262	50,000	22,725
2006	150,000	154,262	50,000	20,975
2007	155,000	146,762	50,000	19,225
2008	165,000	139,224	55,000	17,387
2009	170,000	131,199	60,000	15,375
2010-2014	985,000	535,559	335,000	38,987
2015-2019	900,000	313,488		
2020-2024	860,000	128,181		
Total	\$ 3,525,000	1,709,937	600,000	134,674

Year Ended September 30	Negotiable Notes		Certificates of Participation	
	Principle	Interest	Principle	Interest
2005	\$ 16,400	1,732	45,000	11,320
2006	16,400	867	50,000	8,350
2007	-	-	50,000	5,175
2008	-	-	55,000	1,787
Total	\$ 32,800	2,599	200,000	26,632

CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 8- LONG-TERM LIABILITIES (cont)

Business Type Activities:

Year Ended September 30	Water and Sewer Revenue Bonds		Other Loans	
	Principle	Interest	Principle	Interest
2005	\$ 55,000	25,090	67,600	1732
2006	55,000	21,240	10,000	0
2007	60,000	17,185	-	0
2008	65,000	12,747	-	0
2009	70,000	7,920	-	0
2010-2014	75,000	2,700	-	0
	<u>\$ 380,000</u>	<u>86,882</u>	<u>77,600</u>	<u>1732</u>

COMPENSATED ABSENCES PAYABLE

As more fully explained in Note 1(P), compensated absences payable is adjusted on an annual basis. Compensated absences will be paid from the fund from which the employee's salaries were paid.

NOTE 9-LIMITATIONS ON INDEBTEDNESS

Presented below is Section 21-33-303 Mississippi Code:

No municipality shall hereafter issue bonds secured by a pledge of its full faith and credit for the purposes authorized by law in an amount which, when added to the then outstanding bonded indebtedness of such municipality, shall exceed either (a) fifteen percent (15%) of the assessed value of the taxable property within such municipality, according to the last completed assessment for taxation, or (b) ten percent (10%) of the assessment upon which taxes were levied for its fiscal year ending September 30, 1984, whichever is greater. In computing such indebtedness, there may be deducted all bonds or other evidences of indebtedness, heretofore or hereafter issued, for school, water, sewerage systems, gas, and light and power purposes and for the construction of special improvements primarily chargeable to the property benefited, or for the purpose of paying the municipality's proportion of any betterment program, a portion of which is primarily chargeable to the property benefited. However, in no case shall any municipality contract any indebtedness which, when added to all of the outstanding general obligation indebtedness, both bonded and floating, shall exceed either (a) twenty percent (20%) of the assessed value of all taxable property within such municipality according to the last completed assessment for taxation or (b) fifteen percent (15%) of the assessment upon which taxes are levied for its fiscal year ending September 30, 1984, whichever is greater. Nothing herein contained shall be construed to apply to contract

CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 9 – LIMITATIONS ON INDEBTEDNESS (cont)

obligations in any form heretofore or hereafter incurred by any municipality which are subject to annual appropriations therefore, or to bonds heretofore issued by any municipality for school purposes, or to contract obligations in any from heretofore or hereafter incurred by any municipality which are payable exclusively from the revenues of any municipally-owned utility, or to bonds issued by any municipality under the provisions of Section 57-1-1 through 57-1-51, or to any special assessment improvement bonds issued by any municipality under the provisions of Sections 21-41-1 through 21-41-53, or to any indebtedness incurred under Section 55-23-8.

The following is a schedule of limitations on the indebtedness of the City at September 30, 2004:

<u>Authorized Debt Limit:</u>	<u>15 Percent</u>	<u>20 Percent</u>
Assessed valuation of fiscal year ended 'September 30, 2004 (\$52,268,056)	7,840,208	10,453,611
Present debt subject to 15% limitation	(3,585,400)	
Present debt subject to 20% limitation including debt subject to 15% limitation		(3,965,400)
Margin for further debt under respective debt limits	<u>4,254,808</u>	<u>6,488,211</u>

NOTE 10-DEFINED BENEFIT PENSION PLAN

PLAN DESCRIPTION The City contributes to the Public Employee's Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employee's Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

NOTE 10-DEFINED BENEFIT PENSION PLAN

FUNDING POLICY PERS members are required to contribute 7.25% of their annual covered salary and the City is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The City's contributions to PERS for the fiscal years ending September 30, 2004, 2003 and 2002 were \$185,674, \$165,681 and \$144,010, respectively, which equaled the required contributions for each year.

NOTE 11-PRIOR PERIOD ADJUSTMENT

General Fund – correction of an error in the reporting of liabilities to the state for court assessments \$12,150.

NOTE 12-CHANGE IN ACCOUNTING PRINCIPLE

In preparation of the Governmental Accounting Standard Board's Statement 34 requirements, the thresholds for reporting general fixed assets have been modified. The following schedule details those modifications.

	<u>Previous threshold amounts</u>	<u>Threshold amounts at September 30, 2004</u>
Land	\$0	\$0
Buildings	\$500	\$50,000
Improvements other than buildings	\$500	\$25,000
Mobile equipment	\$500	\$5,000
Furniture and equipment	\$500	\$5,000
Leased property under capital leases	\$500	*

(*) The threshold amount will correspond with the amounts for the asset classifications as listed above.

NOTE 13-CONTINGENCIES

FEDERAL GRANTS

The city has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these revenues are generally conditioned upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a grantor audit may become

**CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2004**

NOTE 13-CONTINGENCIES (cont)

a liability of the city. No provision for any liability that may result has been recognized the city's financial statements.

LITIGATION

According to the City Attorney, the claims against the City at September 30, 2004 will be covered by insurance.

NOTE 14-RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Except as described below, the City carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Participation in Public Entity Risk Pool:

The City participates in the Mississippi Municipal Liability Plan (MMLD), an insurance-purchasing pool. The City, along with other municipalities as a group, purchased insurance to insure against losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. Settled claims resulting from these insured risks have not exceeded the City's insurance coverage since it joined the pool.

The City is a member of the Mississippi Municipal Workers Compensation Group (MMWCG). The group is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. MMWCG covers risks of loss arising from injuries to the City's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of the MMWCG contributes quarterly to a fund held in trust. The funds in the trust account are used to pay any claim up to \$250,000. For a claim exceeding \$250,000, MMWCG has insurance, which will pay the excess up to the statutory limit. If total claims during a year were to deplete the trust account, then the pool members would be required to pay for the deficiencies. The City has not had an additional assessment for excess losses incurred by the pool.

**CITY OF PETAL
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2004**

NOTE 15-COMMITMENTS

Commitments under construction contracts are described in Note 7.

NOTE 16-MISSISSIPPI MUNICIPAL COMPLIANCE QUESTIONNAIRE

The Mississippi Compliance Questionnaire was completed and entered into the minutes as prescribed by law. A review of the questionnaire revealed that all items were answered yes or not applicable.

NOTE 17-SUBSEQUENT EVENTS

On February 1, 2005, the city entered into a \$1,793,593 contract with SRS, Inc. for sewer extension in the newly annexed areas in the vicinity of state route 42.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF PETAL
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Budgeted Amounts		Actual (Budgetary Basis)	Variances Positive (Negative) Final Budget to Actual
	Original	Final		
REVENUES				
Property taxes	\$ 1,340,000	\$ 1,353,774	\$ 1,489,615	\$ (135,841)
License and permits	311,000	404,000	401,678	2,322
Intergovernmental revenues	1,830,000	2,000,159	2,064,593	(64,434)
Charges for services	58,800	65,609	112,813	(47,204)
Fines and forfeitures	245,000	302,000	261,623	40,377
Miscellaneous	36,000	59,901	55,501	4,400
TOTAL REVENUES	3,820,800	4,185,443	4,385,823	(200,380)
EXPENDITURES				
General government	547,178	731,285	711,639	(19,646)
Public safety	1,958,452	2,050,740	1,999,624	(51,116)
Public works	1,019,553	1,107,984	1,040,226	(67,758)
Culture & recreation	278,836	312,732	307,577	(5,155)
Debt service:	88,993	100,905	100,809	(96)
Principal	-	-	-	-
Interest	-	-	-	-
TOTAL EXPENDITURES	3,893,012	4,303,646	4,159,875	(143,771)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(72,212)	(118,203)	225,948	(344,151)
OTHER FINANCING SOURCES (USES)				
Sale of Equipment	-	-	33,470	(33,470)
Insurance Proceeds	-	-	10,735	(10,735)
Transfers Out	-	(9,605)	(9,605)	-
TOTAL OTHER FINANCING SOURCES (USES)	-	(9,605)	34,600	(44,205)
NET CHANGE IN FUND BALANCE	(72,212)	(127,808)	260,548	(344,151)
Adjustments to GAAP basis:				
Revenue accruals			220,754	
Expenditure accruals			(179,352)	
NET CHANGE IN FUND BALANCE - GAAP basis			301,950	
FUND BALANCE-BEGINNING			699,447	
Prior Period Adjustment			(12,150)	
FUND BALANCE-ENDING			\$ 989,247	

The notes to the Required Supplementary Information are an integral part of this statement.

CITY OF PETAL
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2004

BUDGETARY COMPARISON SCHEDULE

- 1) Basis of Presentation. The Budgetary Comparison Schedule presents the original legally adopted budget, the final legally adopted budget, the actual data on the GAAP basis and variances between the final budget and the actual data.
- 2) The budget is adopted by the Board of Alderman. Amendments can be made of the approval of the Board. A budgetary comparison is presented for the major governmental funds consistent with accounting principles generally accepted in the United States of America
- 3) Section 21-35-15, Mississippi Code (Ann. 1972) explains that expenditures shall be kept within the budget "except for capital outlay." Because Capital Projects funds do not have legally binding budgets, two of the major governmental funds budgetary comparisons are not presented.

OTHER SUPPLEMENTAL INFORMATION

CITY OF PETAL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
MAJOR FEDERAL AWARDS			
U. S. Department of Agriculture Conservation Reserve Program	10.069	N/A	\$ 500,000
U. S. Department of Transportation - Federal Highway Administration Highway Planning and Construction (Federal-Aid Highway Program)/ Passed-through the Mississippi Department of Transportation Local Surface Transportation Program: South Main Street Reconstruction	20.205	STP-8790-00(04)	29,120
Local Surface Transportation Program: Utility Relocation	20.205	STP-2170-00(005)	1,314,051
			<u>1,343,171</u>
Total Expenditures of Major Federal Awards			<u>1,843,171</u>
OTHER FEDERAL AWARDS			
U. S. Department of Housing and Urban Development/Passed-through the Mississippi Development Authority Community Development Block Grants/state's program	14.228	99-295-ED-1F01	2,500
U.S. Department of Justice - Office of Justice Programs Bulletproof Vest Partnership Program	16.607	n/a	3,684
Passed-through the Mississippi Department of Public Safety, Division of Public Safety Planning Byrne Formula Grant, Multijurisdictional Narcotics Task Force Program	16.579	2003-DB-BX-0030	22,252
Local Law Enforcement Block Grant Program	16.592	2003-LB-BX-1233	1,719
Total U.S. Department of Justice - Office of Justice Programs			<u>27,655</u>
U. S. Department of Transportation - Nationall Highway Safety Administration Passed-through the Mississippi Department of Public Safety, Division of Public Safety Planning State and Community Highway Safety, Safe Communities Grant	20.600	4SC3211/NHTSA402	41,600
U. S. Department of Homeland Security Assistance to Firefighters Grant	97.044	n/a	179,855
Passed-through the Mississippi Emergency Management Agency State Domestic Preparedness Equipment Support Program, Domestic Preparedness Equipment Grant Award	97.004	3SSG-1045	28,443
Public Assistance Grant	97.036	FEMA-1550-DR-MS	21,044
Total U. S. Department of Homeland Security			<u>229,342</u>
Total Expenditures of Other Awards			<u>301,097</u>
Total Expenditures of Federal Awards			\$ <u>2,144,268</u>

**CITY OF PETAL
OTHER SUPPLEMENTAL INFORMATION
SEPTEMBER 30, 2004**

NOTES TO SCHEDULE OF FEDERAL EXPENDITURES

This Schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the financial statements.

The balance outstanding at September 30, 2004, of the loan received in a previous fiscal year under former CFDA #66.458 (1995 SRF-C280770-01-2) through the state water pollution control revolving fund is \$506,140. 80% of the loan was federally funded; 80% of the outstanding balance is \$404,912. There are no continuing federal legal compliance requirements for this loan therefore it is not reported in the schedule of federal expenditures.

**CITY OF PETAL, MISSISSIPPI
SCHEDULE OF SURETY BONDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

Presented below is Section 21-17-5 of Mississippi Code

Unless otherwise provided by law, before entering upon the duties of their respective offices, the alderman or councilmen of every municipality of this state shall give bond, with sufficient surety, to be payable, conditioned and approved as provided by law, in a penalty equal to five percent (5%) of the sum of all municipal taxes shown by the assessment rolls and the levies to have been collectible in the municipality for the year immediately preceding the commencement of the term of office of said alderman or councilman; however, such bond shall not exceed the amount of One Hundred Thousand Dollars (\$100,000.00)

<u>Name</u>	<u>Position</u>	<u>Company</u>	<u>Bond</u>
Tony Phillips	Mayor	Scott Municipal Insurance	\$50,000
Willie Hinton	Alderman	Scott Municipal Insurance	\$30,000
Joe McMurry, Sr.	Alderman	Scott Municipal Insurance	\$30,000
William Travis	Alderman	Scott Municipal Insurance	\$30,000
Steve Stringer	Alderman	Scott Municipal Insurance	\$30,000
Michael Draughn	Alderman	Scott Municipal Insurance	\$30,000
Jean Ishee	City Clerk	USF&G	\$50,000
Lee Shelbourn	Police Chief	USF&G	\$50,000
Blanket Bond	Various	USF&G	\$10,000

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

American Institute of
Certified Public Accountants



Mississippi Society of
Certified Public Accountants

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March 1, 2005

**REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Honorable Mayor, Members of the
Board of Alderman and City Clerk
City of Petal, Mississippi

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Petal as of and for the year ended September 30, 2004, and have issued our report thereon dated March 1, 2005. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the city's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2004-1. We also noted certain immaterial instances of noncompliance that we have reported to management of the city in a separate letter dated March 1, 2005, which is included in this report.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the city's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting that, in our opinion, could adversely affect the city's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as Finding 2004-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions and, accordingly, would not also disclose all reportable conditions that are considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management of the city in a separate letter dated March 1, 2005, which is included in this report.

This report is intended solely for the information and use of management, city officials and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Wright & King, CPA



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March 1, 2005

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE INACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor, Members of the
Board of Alderman and City Clerk
City of Petal, Mississippi

Compliance

We have audited the compliance of the City of Petal with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2004. The city's major federal programs are identified in the summary of auditor's results section of the Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the city's management. Our responsibility is to express an opinion on the city's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the city's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the city's compliance with those requirements.

Major Federal Program Compliance Report

In our opinion, City of Petal complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004.

Internal Control Over Compliance

The management of the City of Petal is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the city's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not note any matters involving internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the city board of aldermen and management, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

WRIGHT & KING, CPAs
Hattiesburg, Mississippi

**REPORT ON COMPLIANCE
WITH STATE LAWS AND REGULATIONS**



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March 1, 2005

REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Honorable Mayor, Members of the
Board of Aldermen and City Clerk
City of Petal, Mississippi

We have audited the general purpose financial statements of the City of Petal, Mississippi as of and for the year ended September 30, 2004 and have issued our report thereon dated March 1, 2005. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain state laws and regulations. However, providing an opinion on compliance with state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of those procedures and our audit of the general purpose financial statements disclosed the following immaterial instances of noncompliance with state laws and regulations. Our findings and recommendations and your responses are as follows:

1. Finding (Surety Bonds, Section 21-17-5):
The Board of Aldermen are required to be bonded in an amount equal to the lesser of \$100,000 or 5% of the sum of all the municipal taxes shown by the assessment rolls and levies to have been collectible for the year immediately preceding the term of office. This is a violation of Section 21-17-5, Miss. Code Ann. (1972).

Recommendation:

We recommend that the city comply with Section 21-17-5, Miss. Code Ann. (1972), which requires sufficient bonding amounts for the Board of Aldermen and the Municipal Mayor.

Response:

The city agrees with this finding and the next administration will be bonded in accordance with the requirements of Section 21-17-5, Miss. Code Ann. (1972).

2. Finding (Collateralization of Deposits, Section 27-105-1, et seq.)
City depositories must report to the State Treasurer the amounts of public funds held and pledge securities to the State Treasurer in a manner to ensure adequate collateralization. During the fiscal year ending September 30, 2004, we noted that one of the City's bank accounts was not reported to the State Treasurer

Recommendation:

We recommend comparing the State Treasurer's report to bank balances and reporting discrepancies to the State Treasurer to ensure adequate collateralization.

Response:

The city will review the State Treasurer's report to ensure all city bank accounts are covered.

3. Finding (Court Assessments: Local Citation Assessment, Section 63-9-31)
The Local Citation Assessment (Section 63-9-31) are required to be settled to the Department of Safety's Office of Public Safety Planning. The Local Citation Assessment is being settled to the City's General Fund.

Recommendation:

We recommend the City contact Ms Shelah Hartfield, Director of IA with the DPS to determine resolution of the assessments collected thus far.

Response:

The City will contact the DPS and follow the appropriate procedures for resolution.

The Office of the State Auditor or a public accounting firm will review, on the subsequent year's audit engagement, the findings in this report to ensure that corrective action has been taken.

This report is intended for the information of management and the Board of Aldermen. However, this report is a matter of public record and its distribution is not limited.

WRIGHT & KING

Hattiesburg, Mississippi

REPORT TO MANAGEMENT



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March 1, 2005

MANAGEMENT REPORT

Honorable Mayor and Board of Aldermen
Petal, Mississippi

We have audited the general purpose financial statements of the City of Petal, for the year ended September 30, 2004, and have issued our report thereon dated March 1, 2005. During the course of our audit, we noted several matters that we feel should be brought to the city's attention. These matters are opportunities for improving your accounting and reporting procedures and thereby reducing possible problems in future audits. The following comments and recommendations are intended solely for use by management.

Comment 1 We recommend the City develop a procedure for accepting and valuing donated items at the time the donation is received. Towards this end, a form can be developed and required at the time of donation for items ranging from donated streets and infrastructure to donated automobiles.

Comment 2 The City should disbursement the balance in Petal School District debt service fund to the School District. This recommendation is in accordance with instructions from the State Auditor's Office.

Comment 3 State laws require the city to adopt its budget in the prescribed format. A budget must be adopted for each individual fund and spread upon the minutes with that level of detail. While the city does adopt a budget for each individual fund, the budget entered into its minutes was a consolidated fund group budget. We recommend the budget be spread upon the minutes in the detailed format prescribed.

Comment 4 GASB 34 does not require the City to use the modified approach to infrastructure upkeep. This method is generally thought to be too expensive for small governments.

We appreciate your consideration of these comments which came to our attention as a result of the audit procedures we performed.

WRIGHT & KING
Hattiesburg, Mississippi

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**CITY OF PETAL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

Section 1: Summary of Auditor's Results

Financial Statements:

- | | |
|--|-------------|
| 1. Type of auditor's report issued on the financial statements: | Unqualified |
| 2. Material noncompliance relating to the financial statements? | Yes |
| 3. Internal control over the financial reporting: | |
| a) Material weakness identified? | No |
| b) Reportable condition identified that is not considered to be a material weakness? | Yes |

Federal Awards:

- | | |
|--|--------------|
| 4. Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 5. Internal control over major programs: | |
| a) Material weakness identified? | No |
| b) Reportable condition identified that is not considered to be material weak ness? | No |
| 6. Any finding reported as required by Section .510(a) of Circular A-133? | No |
| 7. Federal programs identified as major programs: | |
| a) Conservation Reserve Program | CFDA# 10.069 |
| b) Local Surface Transportation Program | CFDA# 20.205 |
| 8. The dollar threshold used to distinguish between the A and type B programs: | \$300,000 |
| 9. Auditee qualified as a low-risk auditee? | No |
| 10. Prior year audit finding and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section __.315(b) of OMB Circular A-133? | No |

**CITY OF PETAL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

Section 2: Financial Statement Findings

Finding 2004-1

The city did not comply with the matching provisions of the Safe Communities Grant #4SC3211 as required by the agreement. The amount of the grant was \$41,600 with a city match of \$41,600 due by October 1, 2004. This noncompliance could result in a refund of the entire grant amount.

Recommendation

We recommend the City contact the Office of Highway Safety for instructions on resolving this matter.

Response

The City will contact the Office of Highway Safety to resolve this manner.

Finding 2004-2

The city's monitoring and review policies and procedures covering the various city departments are not sufficient to ensure proper accounting and reporting of transactions and safeguarding of city assets. These policies and procedures are the responsibility of the Mayor, Board of Aldermen and City Clerk.

Recommendation

We recommend the City review its current monitoring policies and procedures and implement necessary procedures with all departments to ensure proper accounting and reporting of transactions and safeguarding of assets.

Response

The City will review its policies and procedures to make any necessary adjustments.

Section 3: Federal Award Findings and Questioned Costs

The results of our tests did not disclose any findings and questioned costs related to the federal awards.